

Date: 04/25/12

To: Thomas J. Bonfield, City Manager
Through: Wanda Page, Deputy City Manager
Alethea Bell, Human Resources Director
From: Virginia Jones, Human Resources Manager
Dee Byers, Health Strategies Coordinator
Subject: Insurance Sub Committee Follow-up

Executive Summary

This memo addresses concerns raised during the Council Insurance Sub-committee meeting on Thursday, April 19, 2012 as well as an amended proposal received from Blue Cross and Blue Shield of North Carolina (BCBSNC). The following will be addressed:

- Duke Hospital Based office Visits: Financial Impact and Employee Experience
- Care Management vs. Case Management
- BCBSNC Amendment to proposal
- UHC Opportunity to Amend Proposal

Attached is a Comparison of Administrative Cost Proposals.

Background

In October 2011, Staff with the assistance of the City's insurance broker, publicized a Benefits Request for Proposal (RFP) that addressed all City benefits. Selected vendors will be the benefit providers for the City for the period 2012-2015. The following timeline reflects the RFP and review process:

- November 15, 2011 - RFP responses were due to the insurance broker;
- December 7, 2011 through December 17, 2011 - Insurance broker provided summary reports to Human Resources;
- January 9, 2012 – January 13, 2012 Human Resources staff reviewed and evaluated summary reports and RFP submissions
- January 26, 2012 - Human Resources staff recruited employees for review committees for each separate benefit:
- February 7, 2012 - Medical and Dental Presentations held before the review committee;
- February 9, 2012 – BCBSNC e-mailed Human Resources staff solutions to address the Duke hospital based office visits;
- February 22-23, 2012 - All other vendor finalists presentations held before the subject review committees;
- February 8, 22-23, 2012 recommendations received from review committees
- March 2012 – Human Resources staff followed up with references based the recommendations received from the review committees;

- April 17, 2012 – 2012 Benefit Recommendation Agenda item placed in the OnBase Agenda item system;
- April 19, 2012 – Meeting with Council Insurance Subcommittee;
- April 23, 2012 – Received “Summary” (Amendment) of Proposal from BCBSNC;
- April 25, 2012 – Human Resources staff offered United Healthcare (UHC) an opportunity to amend its proposal in light of the amendment received from BCBSNC;
- April 25, 2012 – UHC via e-mail notified the City's insurance broker that the declined the opportunity to amend its proposal;

Financial Impact and Employee Experience

Duke Hospital Based Office Visits:

	9 /2010-8/2011	9/2011 – 4/2012
Professional services without labs		
# of members	407	302
Paid Deductibles	\$ 76,033	\$56,513
Paid Co Insurance	\$ 32,854	\$ 25,510
Professional services with Labs		
# of members	649	520
Paid Deductibles	\$113,378	\$83,741
Paid Co Insurance	\$40,201	\$32,718

When employees visit a Duke hospital based office, under BCBSNC, they are being charged a deductible and coinsurance when the charge should be an office visit copay. This is a contract issue with BCBSNC and Duke. Employees have been challenged to find a new provider or have become discouraged and avoided the provider office all together. This is counterproductive to our strategic goal of a well-managed city. We need employees and retirees to change their behavior and to be accountable for their lifestyle choices. United Healthcare can administer this benefit as a “true” office visit with copay.

Example:

BCBSNC:

An employee goes to Duke for ophthalmology appointment in December 2011 and pays the \$40 co-pay as a specialist when they arrive. The only procedure the employee had was field vision tests and an eye exam on this visit like the employee had at an optometrist's office. When the employee received the bill there was an extra fee from the doctor of \$55.15 and \$143.00 facility charge. As a result the total amount owed by the employee was \$238.15 (\$40.00 + 55.15 + 143.00).

An employee goes to a non-Duke based provider for ophthalmology appointment in December 2011 and pays the \$40 co-pay as a specialist when they arrive. That is the extent of the employee's out of pocket liability.

United Health Care (UHC)

Both employees would only have to pay the \$40 co-pay regardless of location. This results in all employees receiving services at the same cost (co-pay). The City's health fund would pay the difference in cost. This results in fairer treatment to the employees.

Care Management verses Case Management

Care management fees were not discussed in detail during the Committee Briefing. Care management fees are related to all the third party vendors for BCBSNC. For example, there is an extra charge that is not included in the City's administrative rate like Blue Points, Member Health Partnership, Online Healthy Living, Diagnostic Imaging, and the Online Medical Encyclopedia. These fees are assessed every two weeks and appear on the bill as a line item listed as care management fees. For the September 2010 – August 2011 benefit year the City of Durham paid **\$72,563.25** in care management fees. The City of Durham has paid **\$58,024.68** in care management fees from September 2011-March 2012. These fees are included in the United Health Care administrative rate.

Case management fees were discussed and noted as not included in the BCBS administrative fees. Case Management is a service that offers a variety of interventions that can help employees manage their condition to improve their quality of life. The Case Management team is a group of dedicated health care professionals like the following, but not limited to; nurses, social workers, dieticians and providers. These members will give employees and retirees one-on-one assistance to remove any barriers that may get in the way of better health care management. Case management fees are included in the administrative fee provided by both providers and the presentation has been corrected to reflect that information.

BCBSNC Amendment to Proposal

The following summary (amendment) of proposal was received on Monday, April 23, 2012, by the City's Benefits Manager after the close of the Request for Proposal (RFP) process and the Council Insurance Subcommittee meeting on Thursday, April 19, 2012.

- BCBSNC reduced its ASO Medical fee by \$1.50 Per Contract per Month, from \$37.12 to \$35.62 for the 2012 and 2013 plan years. In addition, they are offering a 3% fee guarantee for the 2014 plan year citing a commitment to a long-term relationship with the City of Durham.
- BCBSNC's overall fixed cost proposal, including fees and stop-loss premium is lower than that of the competition. (Note: BCBSNC's stop loss is based on a 12/12 and United Health Care quoted an 18/12 for run out because this company is not our current provider).
- Wellness Grant - BCBSNC will provide \$50,000 each year for a three year period (total \$150,000) in wellness funds for the City's use.
- BCBSNC's network advantage is significant. 99% of the City's claims are in-network, resulting in savings to the City. Based on the RFP analysis, BCBSNC projects In-network discounts of 51.6%. Each discount point is worth approximately \$400,000 to the City annually.
- February 9, 2012 BCBSNC submitted via e-mail two solutions to the Duke hospital based office visits as follows:

1. They can have any professional claims that are filed as outpatient and any clinic visit charge paid at the office visit copay, then 100% for the office visit charge only. (This would apply to all providers, not just Duke. However, because there are very few practices which bill professional services as an outpatient facility, this would apply most often to Duke and to certain UNC practices.) All other, non-professional, charges filed as outpatient would be paid to apply deductible and coinsurance (e.g., X-Rays, etc.) just as any other outpatient facility claim.
2. BCBSNC can have all outpatient professional services and clinic visit charges, including services such as X-Rays and Labs, pay as an office visit with copay then 100%. The risk with this approach is that services actually performed in a facility setting could be paid as an office visit. For example, the visit might have been with Duke Private Diagnostic Clinic, but X-Rays might have been done at Duke. As with Option 1, this would apply to all providers, not just to Duke

United Health Care Amendment

United Health Care (UHC) was informed on Wednesday, April 25, 2012 that Blue Cross and Blue Shield of North Carolina (BCBSNC) submitted an amended proposal. UHC declined the opportunity to submit a revised administrative fee. UHC chose to remain with the original offer with the terms below.

- United Health Care ASO medical fee is \$30.71 per contract per month guaranteed for 3 years.
- United Health Care stop loss fee is based on a 18/12 contract. If it was based on a 12/12 it is estimated to be ~\$22.00-\$23.00.
- Wellness Grant-United Health Care will provide \$50,000 per year for 3 years for a total of \$150,000.
- United Health Care network discount average 50% with an average of 97% match of all provider and facilities being classified as "in network"
- United Health Care has the capabilities to process Duke Hospital based office visits as office visits and not out patient. Leaving less room for claims processing errors

Comparison of Administrative Cost Proposals

Third Party Administrator	United HealthCare (UHC) RFP Submission (11/15/11)	BCBSNC RFP Submission (11/15/11)	BCBSNC Amended Submission (04/23/12)
Administrative Fees (medical & dental)	\$33.67 PEPM (per employee per month)	\$40.14 PEPM (per employee per month)	\$38.64 PEPM (per employee per month)¹
Administrative Rate Guarantees	3 years medical and dental	2 years medical and dental	2 years medical and dental
\$225,000 Specific Stop Loss with \$250,000 Aggregating Deductible	\$29.76 PEPM (based on 18/12)	\$23.11 PEPM (based on 12/12)	\$23.11 PEPM (based on 12/12)
Specific Stop Loss Guarantees	1 year	1 year	1 year

¹ BCBSNC guarantees the monthly medical rate for the 2012 and 2013 plan years with the potential for up to a 3% increase for the 2014 plan year.

Stop Loss Lifetime Maximum	In: \$5,000,000 Out: \$5,000,000	In: \$5,000,000 Out: \$5,000,000	In: \$5,000,000 Out: \$5,000,000
COBRA	Additional \$0.27 PEPM	Additional \$0.27 PEPM	Additional \$0.27 PEPM
Network Discounts	50.00%	50.25%	51.60%
Total monthly admn cost (2,795 subscribers)²	\$178,041.50	\$177,538.40	\$173,345.90
Total Annual Cost³	\$2,136,498.00⁴	\$2,130,460.80	\$2,080,150.80
3 year costs⁵	\$6,409,494.00	\$6,391,382.40*	\$6,240,452.40*

² The monthly administrative fee cost is estimated based on the current 2,795 subscriber number. Monthly administrative costs will change as members are added and deleted on a monthly basis.

³ The annual administrative fee cost is estimated based on the current 2,795 subscriber number. Monthly administrative costs will change as members are added and deleted on a monthly basis throughout the benefit year.

⁴ The United Healthcare stop loss rate is higher (18/12) to address the run out of claims under the current self funded contract because the City will enter into a new contract.

⁵ The City contracted with Independent Benefit Advisors (IBA). IBA is paid \$7.00 per employee per month (PEPM) monthly medical commission fee as a part of the bill received from the medical provider

*BCBSNC administrative fee costs may increase up to 3% for the 2014 plan year and is not included in this estimate. The amount may be as much as \$70,957.24 per year.